



0000173422

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

DOUG LITTLE – Chairman
BOB STUMP
BOB BURNS
TOM FORESE
ANDY TOBIN

Arizona Corporation Commission

DOCKETED

SEP 19 2016

DOCKETED BY

Ka

IN THE MATTER OF THE APPLICATION OF
TURNER RANCHES WATER AND SANITATION
COMPANY FOR AUTHORITY TO (1) ISSUE
EVIDENCE OF INDEBTEDNESS IN AN AMOUNT
NOT TO EXCEED \$450,000 IN CONNECTION
WITH CAPITAL IMPROVEMENTS; AND (2)
ENCUMBER ITS REAL PROPERTY AND PLANT
AS SECURITY FOR SUCH INDEBTEDNESS.

DOCKET NO. W-01677A-16-0074

IN THE MATTER OF THE APPLICATION OF
TURNER RANCHES WATER AND SANITATION
COMPANY FOR A DETERMINATION OF THE
FAIR VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS RATES
AND CHARGES FOR UTILITY SERVICE BASED
THEREON.

DOCKET NO. W-01677A-16-0076

DECISION NO. 75746ORDER

Open Meeting
September 7 and 8, 2016
Phoenix, Arizona

BY THE COMMISSION:

* * * * *

Having considered the entire record herein and being fully advised in the premises, the
Commission finds, concludes, and orders that:

FINDINGS OF FACT**I. Procedural History**

1. On March 2, 2016, in Docket No. W-01677A-16-0074 ("Financing Docket"), Turner
Ranches Water and Sanitation Company ("Turner Ranches" or "Company") filed with the Arizona
Corporation Commission ("Commission") an application requesting authorization to incur long-term
debt financing in an amount not to exceed \$450,000, for the purpose of constructing capital
improvements identified by the Company as necessary for the continued provision of reliable utility

1 service. In order to fund the debt service on the proposed loan, the Company is also requesting
2 authorization to implement a debt surcharge recovery mechanism ("DSRM"), which the Company
3 estimates will be \$5.70 per customer per month ("loan surcharge").

4 2. Also on March 2, 2016, in Docket No. W-01677A-16-0076 ("Rate Docket"), Turner
5 Ranches filed an application for a permanent rate increase. The rate application uses a test year ending
6 December 31, 2015.

7 3. On March 29, 2016, in the Rate Docket, Turner Ranches filed an amendment to its rate
8 application.

9 4. On March 31, 2016, in the Rate Docket, the Commission's Utilities Division Staff
10 ("Staff") filed a Letter of Sufficiency stating that the rate application, as amended, had met the
11 sufficiency requirements outlined in Arizona Administrative Code ("A.A.C.") R14-2-103, and
12 classifying Turner Ranches as a Class D utility.

13 5. On May 4, 2016, Staff filed a Motion for Consolidation in each of the two dockets,
14 requesting a procedural order to consolidate the Rate Docket and Financing Docket. According to
15 Staff, the issues presented in both dockets are substantially related and consolidation would conserve
16 resources.

17 6. On May 5, 2016, a Procedural Order was issued consolidating the Rate Docket and
18 Financing Docket.

19 7. On May 16, 2016, the Company filed affidavits certifying that notice of the financing
20 application was published in the *Arizona Business Gazette* on March 17, 2016, and notice of both
21 applications was mailed to customers on April 5, 2016.

22 8. On June 14, 2016, Staff issued a Staff Report recommending approval of the
23 applications, subject to certain terms and conditions.

24 9. On June 24, 2016, the Company filed a Response to Staff Report.

25 10. On June 29, 2016, the Company filed a copy of a Water Provider Compliance Report
26 issued by the Arizona Department of Water Resources ("ADWR") showing that Turner Ranches is
27 compliant with ADWR departmental requirements governing water providers and/or community water
28 systems.

11. On July 8, 2016, Staff filed a Supplemental Staff Report.

12. On July 12, 2016, the Company filed a Response to Supplemental Staff Report confirming that the parties are now in agreement as to the recommended approval of the applications.

II. Background

13. Turner Ranches is a Class D Arizona public service corporation providing non-potable water for irrigation and fire protection services to approximately 963 residential customers, three golf courses, one cemetery, 135 fire hydrants, and other common areas in portions of Maricopa County, Arizona, including, but not limited to, the Leisure World community in Mesa. The Commission approved the Company's present rates and charges in Decision No. 62319 (February 17, 2000).

14. The Company provides its utility services pursuant to four customer classifications: Unmetered Residential Irrigation – Per Month (approximately 949 customers, all of whom are residents of Leisure World and are billed a flat monthly charge, regardless of usage);¹ Unmetered Residential Irrigation – Per Year (approximately 5 customers, all of whom are billed a flat yearly charge per acre, regardless of usage); Metered Irrigation (approximately 11 customers, all of whom are billed monthly usage and commodity charges); and Fire Protection Service (approximately 4 customers, all of whom are billed a flat monthly charge based on meter size).

15. Turner Ranches is a for-profit Arizona "S" corporation wholly owned by Ronald and Judy Lopez. The Company's management functions are currently conducted through a management contract with First National Management, Inc. ("FNM").² During the test year, FNM charged Turner Ranches \$17,000 per month, or \$204,000 annually, for its management services;³ and \$1,240.80 per month, or approximately \$14,890 annually, in rent for the use of its office space. According to Staff, Ronald and Judy Lopez effectively own 66 2/3 percent of FNM.⁴

16. The Company's water system consists of five groundwater wells capable of producing approximately 5,380 gallons per minute ("gpm"); two booster stations; three booster pumps; one

¹ The Company submits a single bill to the Leisure World Homeowners' Association ("HOA"); the HOA then bills the residents individually at the Commission approved rates.

² FNM also provides management services to Beardsley Water Company, Casita Bonitas Sanitary Improvement, and Oak Creek Utility Corp.

³ In addition, Staff notes that a management salary of \$45,000 is also included in the test year.

⁴ Staff notes that Sequoia Industries, Ltd. ("Sequoia") technically owns 100 percent of FNM; however, Ronald and Judy Lopez own 66 2/3 percent of Sequoia. Staff states that Fred T. Wilkinson owns the remaining 33 1/3 percent of Sequoia.

1 recirculation pump; 221 fire hydrants;⁵ and a distribution system. The system utilizes a series of lakes
2 for water storage.

3 17. During the test year, the Company reported 681,395,500 total gallons pumped and
4 681,255,400 gallons sold,⁶ resulting in a reported water loss ratio of approximately zero percent.⁷ Staff
5 indicates that the Company's reported water loss ratio is not accurate since the Company did not have
6 a water meter to measure the number of gallons sold to unmetered customers during the test year.⁸
7 Staff therefore recommends that the Company install a water meter to register the gallons sold under
8 the unmetered rate.⁹

9 18. Based on Staff's engineering analysis, the Company's water system has adequate
10 irrigation and fire protection capacity to serve its existing customer base and reasonable growth.

11 19. Turner Ranches is located in the Phoenix Active Management Area ("AMA").
12 According to a Water Provider Compliance Status Report filed by the Company, Turner Ranches is
13 compliant with ADWR departmental requirements governing water providers and/or community water
14 systems.

15 20. The Company is not regulated by the Arizona Department of Environmental Quality
16 ("ADEQ") because it does not provide potable water to customers.

17 21. Staff's Compliance Section database shows no outstanding compliance issues for the
18 Company.

19 22. Staff's Consumer Services Section database shows that no complaints or opinions have
20 been filed against the Company.

21 23. The Company is in good standing with the Commission's Corporations Division.

22 **III. Rate Application**

23 **A. Adjustments to Rate Base and Operating Income**

24 24. Turner Ranches proposed an original cost rate base ("OCRB") of \$925,790.

25
26 ⁵ The Company owns 135 fire hydrants and the City of Mesa owns 86 fire hydrants.

27 ⁶ The Company reported 507,708,000 metered gallons and 173,547,400 unmetered gallons sold during the test year.

28 ⁷ Staff indicates that a water loss ratio of 10 percent or less is acceptable.

⁸ According to Staff, the Company calculates unmetered gallons sold by subtracting metered gallons sold from total gallons pumped. Under this methodology, the water loss ratio should always be zero percent.

⁹ In its Response to Staff Report, the Company states that the water meter has been installed.

1 25. Staff determined the Company's OCRB to be \$935,037, due to Staff's adjustments to
2 plant balances and accumulated depreciation. The Company did not object to Staff's recommended
3 OCRB.

4 26. We find that Staff's adjustments to the Company's OCRB are reasonable and
5 appropriate, and should be adopted. We further find that the Company's fair value rate base ("FVRB")
6 is equivalent to its OCRB and is \$935,037.

7 27. Staff adjusted test year revenue by \$13,314 to remove the Company's *pro forma*
8 adjustment for anticipated inclining water usage. According to Staff's engineering analysis, the
9 Company has experienced a pattern of declining, not inclining, usage over the last ten years. Staff's
10 adjustment results in test year operating revenue of \$683,735, which the Company did not dispute.

11 28. We find that Staff's adjustment to test year operating revenue is reasonable and
12 appropriate and adopt an adjusted test year operating revenue figure of \$683,735.

13 29. Staff made several adjustments to the test year operating expense, resulting in a net
14 decrease of \$3,079, from \$689,949 to \$686,870. The net decrease to test year operating expense is due
15 to Staff's adjustments to depreciation expense; property tax expense; and income tax expense. The
16 Company did not dispute Staff's adjustments to test year operating expense.

17 30. We find that Staff's adjustments to test year operating expense are reasonable and
18 appropriate and adopt an adjusted test year operating expense figure of \$686,870.

19 31. Based on Staff's analysis, the Company's present rates and charges resulted in a test
20 year operating loss of \$3,317, for no rate of return on the Company's FVRB of \$935,037.

21 **B. Revenue Requirement**

22 32. Staff and the Company recommend approval of permanent rates to produce annual
23 operating revenue of \$828,763, an increase of \$145,028, or 21.21 percent, over adjusted test year
24 revenue of \$683,735, to provide an operating income of \$112,204, for a 12.00 percent rate of return on
25 the Company's FVRB of \$935,037.

26 33. According to Staff, the recommended revenue requirement will provide the Company
27 with sufficient cash flow to pay normal operating expenses and manage contingencies.

28 34. We find that Staff's recommended revenue requirement, as agreed to by the Company,

is just and reasonable and should be adopted.

C. Rate Design

35. Staff and the Company are in agreement on a recommended rate design. The rates and charges for the Company at present, and as recommended by the parties, are as follows:

	<u>Present Rates</u>	<u>Recommended Rates</u>
<u>UNMETERED IRRIGATION SERVICE</u>		
Residential Irrigation Service - Flat Rate - Per Month	\$22.14	\$26.54
Residential Irrigation Service - Per Acre - Per Year	\$781.26	\$936.77
<u>Private Fire Protection</u>		
Flat Rate Per Inch in Diameter of Service Connection - Per Month	\$18.50	\$22.18

METERED IRRIGATION SERVICE

<u>Monthly Usage Charge</u>		
1-1/2" Meter	\$111.06	\$133.17
2" Meter	111.06	133.17
3" Meter	111.06	133.17
4" Meter	111.06	133.17
6" Meter	111.06	133.17
8" Meter	111.06	133.17
10" Meter	111.06	133.17
Gallons Included in Monthly Usage Charge	-0-	-0-
<u>Commodity Charge</u>		
(Per 1,000 Gallons)	\$0.80	\$0.98

METERED CONSTRUCTION WATER

<u>Monthly Usage Charge</u>		
1" Meter	\$33.04	\$39.61
2" Meter	96.31	115.48
<u>Commodity Charge</u>		
(Per 1,000 Gallons)	\$1.66	\$2.03

MONTHLY LOAN SURCHARGE

(All Customers)	\$0.00	\$5.70 (estimate)
-----------------	--------	-------------------

METER TESTING CHARGES¹⁰

5/8" x 3/4" Meter	\$25.00	N/A
3/4" Meter	25.00	N/A
1" Meter	30.00	N/A
1 1/2" Meter	40.00	N/A
2" Meter	45.00	N/A
3" Meter	N/A	N/A
4" Meter	\$120.00	N/A
6" Meter	180.00	N/A
8" Meter	200.00	N/A
10" Meter	220.00	N/A

SERVICE LINE AND METER INSTALLATION CHARGES:

<u>Meter Sizes</u>	<u>Present Total Charges</u>	<u>Recommended Total Charges</u>
5/8" x 3/4" Meter	\$400	At Cost
3/4" Meter	440	At Cost
1" Meter	500	At Cost
1 1/2" Meter	715	At Cost
2" Meter Turbo	715	At Cost
2" Meter Compound	1,700	At Cost
3" Meter Turbo	1,585	At Cost
3" Meter Compound	2,190	At Cost
4" Meter Turbo	2,540	At Cost
4" Meter Compound	3,215	At Cost
6" Meter Turbo	4,915	At Cost
6" Meter Compound	6,270	At Cost
8" & Larger	N/A	At Cost

SERVICE CHARGES:

	<u>Present Charges</u>	<u>Recommended Charges</u>
Establishment	\$20.00	\$20.00
Establishment (After Hours)	30.00	N/A
Reconnection (Delinquent)	20.00	\$20.00
Meter Test (If Correct)	25.00	25.00
Deposit	*	*

¹⁰ The Company states that it does not currently use the meter testing charges. Staff therefore recommends that these charges be removed from the tariff currently on file with the Commission.

1	Deposit Interest	*	*
2	Re-Establishment (Within 12 Months)	**	**
3	NSF Check	\$15.00	\$15.00
4	Deferred Payment	***	***
5	Meter Re-Read (If Correct)	\$15.00	\$15.00
6	Late Payment Penalty	1.50%	1.50%
7	After Hours Service Charge (Customer Request)	N/A	\$50.00
8	Moving Customer Meter (Customer Request)	N/A	At Cost

* Per A.A.C. R14-2-403(B).

** Months off system times the monthly minimum per A.A.C. R14-2-403(D).

*** 2.00% of monthly minimum for the comparable sized meter connection, but no less than \$10.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

36. Staff's recommended rates without the estimated loan surcharge would increase the current monthly bill for the typical unmetered residential irrigation customer by \$4.40, from \$22.14 to \$26.54, for an increase of 19.87 percent. Staff's recommended rates inclusive of the estimated loan surcharge would increase the current monthly bill for the same residential customer by \$10.10, from \$22.14 to \$32.24, for an increase of 45.62 percent.

IV. Financing Application

37. Turner Ranches requests authorization to incur long-term debt financing from BBVA Compass in the form of a 10-year amortizing loan, in an amount not to exceed \$450,000, at an interest rate of WSJ Prime + 1.50 percent fixed for five years, then adjusted every five years at the same rate index for the term of the loan.¹¹ The loan will be secured by granting BBVA Compass first position pledge on the Company's utility plant and property.¹²

38. Turner Ranches proposes to use the proceeds from the loan for the following capital improvement projects:

¹¹ According to the financing application, BBVA Compass initially proposed an interest rate of WSJ Prime + 1.75 percent fixed for the term of the loan. In its Response to the Staff Report, the Company indicates that BBVA Compass has committed to offer an interest rate of WSJ Prime + 1.50 percent fixed for five years, then adjusted every five years at the same rate index for the term of the loan.

¹² Pursuant to A.R.S. § 40-285, public service corporations are required to obtain Commission authorization to encumber certain utility assets. The statute protects captive customers from a utility's act to dispose of any of its assets that are necessary for the provision of service, and thus, pre-empts any service impairment due to disposal of assets essential for providing service. Pledging assets as security, however, typically provides benefits to the borrower in the way of increased access to capital funds or a preferable interest rate, and it is often an unavoidable condition for procurement of funds for small or financially stressed utilities.

Project Priority	Project Name	Company's Reasons for Upgrade or Maintenance	Description of Work to be Completed	Estimated Costs
1	TR 10 Well Rebuild ¹³	Operator hearing knocking noise; output steadily dropping; well occasionally binds and will not operate.	Remove well; replace column pipe, tube, and shaft; camera well; single casing patch; rebuild motor and bowl assembly and reinstall.	\$80,000
2	Recker Well Rebuild	Well discharging silt; output has declined rapidly; motor operating very noisily.	Remove well; replace column pipe, tube, and shaft; camera well; single casing patch; rebuild motor and bowl assembly and reinstall.	\$92,210
3	TR 10 Well Back-Up	Needed to provide water supply to golf course due to loss of effluent contract in with the City of Mesa in 2013.	Existing Leisure World effluent line extended 1,400 linear feet to allow the Recker or Broadway wells to deliver water to the irrigation lake	\$117,175
4	F&I Station Jockey Pump Addition	Variable Frequency Drive controlled pumps run continually due to low flow through station; current pump is 75hp with capacity of 800 gpm.	Install smaller Variable Frequency Drive controlled pump to prove minimum capacity of 250-300 gpm; also needed in case existing pump fails.	\$33,720
5	Taylor Well Rebuild	Shaft wobbles considerably and motor casing is severely corroded.	Remove well; replace column pipe, tube, and shaft; camera well; single casing patch; rebuild motor and bowl assembly and reinstall.	\$87,325
6	Taylor Well Electrical Improvements	Existing electrical greater than 30 years old; motor control center rusted in several areas allow water leakage into that area.	Replacement of motor control center cabinet and all electrical components.	\$55,250
7	Recirculation Station	Currently one pump to provide water to the upper lake; when failure occurs, company must rent pumping equipment.	Install second pump of same capacity; alternate with existing pump and install all required electrical components.	\$32,000
8	Fire Hydrant Replacements	Six fire hydrants were not replaced during the hydrant replacement program in 1998.	Excavation, removal of existing units, replace with new units, and backfill.	\$29,000
9	Valve Replacements	Currently 10 distribution system valves that do not operate.	Excavation, removal of existing units, replace with new units, and backfill.	\$84,000
10	TR 11 Well Rebuild	Motor operates at very high temperature during operation.	Remove well; replace column pipe, tube, and shaft; camera well; single casing patch; rebuild motor and bowl assembly and reinstall.	\$49,820

39. Staff reviewed the Company's proposed capital improvement projects and concluded that the projects, including the manner in which they are prioritized, are appropriate and the related cost estimates are reasonable. However, Staff states that no used and useful determination of the proposed additions and improvements was made, and no particular future treatment should be inferred for ratemaking or rate base purposes.

40. According to the financing application, the Company's capital structure on December 31, 2015, consisted of 0.0 percent short-term debt; 0.0 percent long-term debt; and 100.0 percent equity. Based on Staff's financial analysis, the Company's *pro forma* capital structure, assuming issuance of new debt in the amount of \$450,000, at an interest rate of WSJ Prime + 1.75 percent fixed for ten years,¹⁴ would be composed of 2.85 percent short-term debt; 33.62 percent long-term debt; and 63.53 percent equity.

¹³ Staff notes that the Company has already completed construction of this capital improvement project.

¹⁴ As discussed earlier, the interest rate will be WSJ Prime + 1.50 percent fixed for five years, then adjusted every five years at the same rate index for the term of the loan.

41. Staff and the Company recommend approval of a DSRM to fund the debt service on the proposed loan. The Company estimates that a monthly loan surcharge in the amount of \$5.70 per customer will generate sufficient cash flow for the Company to meet its financial obligation under terms of the proposed loan.¹⁵ Based on an estimated customer count of 963, the estimated loan surcharge would generate approximately \$5,489 per month, or \$65,859 annually.

V. Staff's Recommendations

42. Staff recommends the following:

- (a) Approval of Staff's rates and charges as shown in Supplemental Schedule MJR-4 of the Supplemental Staff Report filed in this matter;
- (b) In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax, per A.A.C. Rule 14-2-409(D)(5);
- (c) Directing the Company to file, as a compliance item in this Docket, within thirty (30) days of the effective date of this Decision, a schedule of its approved rates and charges;
- (d) Granting the Company authorization to incur a 10-year amortizing loan in an amount not to exceed \$450,000 pursuant to a loan agreement with BBVA Compass at an interest rate not to exceed WSJ Prime + 1.75 percent fixed for ten years;¹⁶
- (e) Establishing an expiration date for any unused authorization to incur debt granted in this proceeding at December 31, 2018;
- (f) Directing the Company to file with Docket Control, as a compliance item in this matter, within thirty (30) days after executing any financing transaction authorized herein, a notice confirming that the execution has occurred and a

¹⁵ The Company's estimated loan surcharge calculation assumes the Company will incur \$465,000 in long-term debt at an interest rate of WSJ Prime + 1.75 percent fixed for 10 years. We note that under the actual terms of the loan, the Company will incur long-term debt in an amount not to exceed \$450,000, at an interest rate of WSJ Prime + 1.50 percent fixed for 5 years, then adjusted every five years at the same rate index for the term of the loan.

¹⁶ As discussed earlier, the interest rate will be WSJ Prime + 1.50 percent fixed for five years, then adjusted every five years at the same rate index for the term of the loan.

certification by an authorized Company representative that the terms of the financing fully comply with the authorizations granted herein;

- (g) Directing the Company to charge a surcharge per customer per month in the amount of \$5.70, beginning no sooner than thirty (30) days after closing the loan;
- (h) Directing that the \$5.70 surcharge will be collected for 120 months;
- (i) Directing the Company to provide to the Utilities Division, upon request, a copy of any BBVA Compass loan documents executed pursuant to the authorizations granted herein;
- (j) Authorizing the Company to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 and A.A.C. R18-15-104 in connection with the loan;
- (k) Authorizing the Company to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted;
- (l) Directing the Company, as a compliance item in this Docket, to notify its customers of the authorized rates and charges approved in this proceeding, and their effective date, in a form acceptable to Staff, by means of an insert in its next regular scheduled billing and to file copies with Docket Control within ten (10) days of the date notice is sent to customers;
- (m) Authorizing the depreciation rates shown in Table 6 of the Engineering Report; and
- (n) Directing the Company to install a water meter at the fire and irrigation booster station to register gallons sold to Leisure World residential customers.

VI. Resolution

43. We note that Staff's recommended monthly loan surcharge of \$5.70 per customer is based, in part, on an estimated loan amount, interest rate, and customer count. Although we find that it is reasonable and appropriate to approve the DSRM to fund the debt service on the loan, the amount of the loan surcharge should be calculated by Staff based on the actual terms of the loan at closing. We therefore direct the Company to file in this docket, upon execution of the loan, an application requesting the implementation of the loan surcharge. We further direct Staff to calculate the appropriate loan

1 surcharge amount and prepare and file a recommended order for Commission consideration, within
2 thirty (30) days of the filing of the Company's application requesting implementation of the loan
3 surcharge.

4 44. In addition, we find that it is reasonable and appropriate to impose the following
5 conditions on the financing approval authorized herein:

6 (a) That the Company be ordered to establish a separate interest-bearing account to
7 deposit the loan surcharge funds into, and that the Company only use those funds
8 for the purposes of making the debt service payments (principal and interest) on
9 the loan, as well as the payment of any income taxes related to the collection of
10 the loan surcharge monies;

11 (b) If, when the loan surcharge expires, the Company has collected more funds
12 through the loan surcharge than were needed to make the debt service and
13 associated income tax payments, the Company shall credit the amount of the
14 overage in its next monthly billing, with each customer receiving an equal
15 portion of the overage amount, and the Company file notice showing that such
16 credits have been made; and

17 (c) That the Company file with Docket Control, as a compliance item in this docket,
18 by September 1 of each year, a report reconciling all loan surcharge monies
19 billed and collected, along with copies of the prior year's monthly bank
20 statements for the loan surcharge account, until the Company files its next rate
21 application.

22 45. We further note that Staff was unable to determine the Company's water loss ratio
23 during the test year because the Company did not have the water meter necessary to register the gallons
24 of water sold to unmetered residential customers. Given the Company's representation that the water
25 meter has since been installed,¹⁷ we believe it is reasonable and appropriate for the Company to file,
26 no later than September 1, 2017, the most recently available twelve consecutive months of water use
27

28 ¹⁷ In its Response to Staff Report, the Company states that the water meter has been installed.

1 data in order for Staff to calculate the actual water loss on the system. If Staff determines that the
 2 Company's water loss is greater than 10 percent, we direct the Company to file a report containing a
 3 detailed analysis and plan to reduce water loss to 10 percent or less, or, a detailed cost benefit analysis
 4 if the Company believes reducing water loss to 10 percent or less is not cost effective.

5 46. Finally, we note that the Company relies exclusively on groundwater for the provision
 6 of its irrigation and fire protection services, and offers those services to the majority of its customers
 7 at unmetered rates. We are concerned that furnishing groundwater at unmetered rates may not be
 8 consistent with the Commission's policy on water conservation. We therefore direct Staff to evaluate
 9 whether the Company's rate design is consistent with the Commission's policy on water conservation
 10 in the Company's next rate case.

11 47. We find that Staff's recommendations, as modified herein, as well as the additional
 12 conditions set forth in Findings of Fact Nos. 44, 45, and 46, are just and reasonable and in the public
 13 interest, and should therefore be adopted.

14 CONCLUSIONS OF LAW

15 1. Turner Ranches Water and Sanitation Company is a public service corporation within
 16 the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-301, and 40-
 17 302.

18 2. The Commission has jurisdiction over Turner Ranches Water and Sanitation Company
 19 and the subject matter of the applications.

20 3. Notice of the applications was provided in the manner prescribed by law.

21 4. Turner Ranches Water and Sanitation Company's fair value rate base is \$935,037.

22 5. The rates, charges, and conditions of service authorized herein are just, reasonable, and
 23 in the public interest and should be approved without a hearing.

24 6. The authorizations granted herein are for lawful purposes which are within the corporate
 25 powers of the Company, are compatible with the public interest, with sound financial practices, and
 26 with the proper performance by the Company of service as a public service corporation, and will not
 27 impair the Company's ability to perform that service.

28 7. The financing approved herein is for the purposes stated in the financing application, is

reasonably necessary for those purposes, and is not reasonably chargeable to operating expenses or to income.

8. Approval of the proposed financing should not guarantee or imply any specific treatment of any capital additions for ratemaking or rate base purposes.

9. Staff's recommendations, as modified and discussed herein, as well as the additional conditions set forth in Findings of Fact Nos. 44, 45, and 46, are just and reasonable and in the public interest.

ORDER

IT IS THEREFORE ORDERED that Turner Ranches Water and Sanitation Company shall file with Docket Control, as a compliance item in this docket, by September 30, 2016, revised schedules setting forth the following rates and charges:

UNMETERED IRRIGATION SERVICE:

Residential Irrigation Service - Flat Rate - Per Month	\$26.54
Residential Irrigation Service - Per Acre - Per Year	\$936.77
<u>Private Fire Protection</u>	
Flat Rate Per Inch in Diameter of Service Connection - Per month	\$22.18

METERED IRRIGATION SERVICE:

<u>Monthly Usage Charges</u>	
1 1/2" Meter	\$133.17
2" Meter	\$133.17
3" Meter	\$133.17
4" Meter	\$133.17
6" Meter	\$133.17
8" Meter	\$133.17
10" Meter	\$133.17
<u>Commodity Charge</u>	
(Per 1,000 Gallons)	\$0.98

METERED CONSTRUCTION WATER:

Monthly Usage Charge

1" Meter	\$39.61
2" Meter	\$115.48

Commodity Charge

(Per 1,000 Gallons)	\$2.03
---------------------	--------

MONTHLY LOAN SURCHARGE:

(All Customers)

To Be Determined

SERVICE LINE AND METER INSTALLATION CHARGES:

<u>Meter Sizes</u>	<u>Service Line Charges</u>	<u>Meter Installation Charges</u>
5/8" x 3/4" Meter	At Cost	At Cost
3/4" Meter	At Cost	At Cost
1" Meter	At Cost	At Cost
1 1/2" Meter	At Cost	At Cost
2" Meter (Turbo & Compound)	At Cost	At Cost
3" Meter (Turbo & Compound)	At Cost	At Cost
4" Meter (Turbo & Compound)	At Cost	At Cost
6" Meter (Turbo & Compound)	At Cost	At Cost
8" Meter & Larger	At Cost	At Cost

SERVICE CHARGES:

Establishment	\$20.00
Reconnection (Delinquent)	20.00
Meter Test (If Correct)	25.00
Deposit	*
Deposit Interest	*
Re-Establishment (Within 12 Months)	**
NSF Check	\$15.00
Deferred Payment	***
Meter Re-Read (If Correct)	\$15.00
Late Payment Penalty	1.50%
After Hours Service Charge (Customer Request)	\$50.00
Moving Customer Meter (Customer Request)	At Cost

* Per A.A.C. R14-2-403(B).

** Months off system times the monthly minimum charge per A.A.C. R14-2-403(D).

1 *** 2.00% of monthly minimum for the comparable sized meter connection, but no less
2 than \$10.00 per month. The service charge is for fire sprinklers is only applicable for service
3 lines separate and distinct from the primary water service line.

4 IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective
5 for all service provided during Turner Ranches Water and Sanitation Company's next regular billing
6 cycle.

7 IT IS FURTHER ORDERED that, in addition to the collection of its regular rates and charges,
8 Turner Ranches Water and Sanitation Company shall collect from its customers a proportionate share
9 of any privilege, sales or use tax pursuant to A.A.C. R14-2-409(D).

10 IT IS FURTHER ORDERED that Turner Ranches Water and Sanitation Company shall notify
11 its customers of the authorized rates and charges and their effective date, as well as information
12 generally explaining the loan surcharge, the approximate date that the loan surcharge is expected to go
13 into effect, and that the loan surcharge is estimated to be \$5.70 per customer per month, in a form
14 acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regularly
15 scheduled billing or as a separate mailing.

16 IT IS FURTHER ORDERED that Turner Ranches Water and Sanitation Company shall file
17 with Docket Control, as a compliance item in this docket, within ten (10) days after the date notice is
18 sent to its customers, a copy of the notice provided to customers.

19 IT IS FURTHER ORDERED that Turner Ranches Water and Sanitation Company shall use the
20 depreciation rates delineated in Table 6 of the Engineering Report portion of the Staff Report in this
21 matter.

22 IT IS FURTHER ORDERED that Turner Ranches Water and Sanitation Company is authorized
23 to incur long-term debt financing pursuant to a loan agreement with BBVA Compass, in the form of a
24 10-year amortizing loan, in an amount not to exceed \$450,000, at a fixed interest rate not to exceed
25 WSJ Prime + 1.50 percent.

26 IT IS FURTHER ORDERED that such authority is expressly contingent upon Turner Ranches
27 Water and Sanitation Company's use of the loan proceeds for the purposes set forth in the financing
28 application.

1 IT IS FURTHER ORDERED that any unused debt authorization granted in this proceeding
2 shall terminate on December 31, 2018.

3 IT IS FURTHER ORDERED that Turner Ranches Water and Sanitation Company is hereby
4 authorized to pledge, mortgage, lien, and/or otherwise encumber its assets and revenues in the State of
5 Arizona pursuant to A.R.S. § 40-285 and A.A.C. R18-15-104, in connection with the indebtedness
6 authorized herein.

7 IT IS FURTHER ORDERED that Turner Ranches Water and Sanitation Company is hereby
8 authorized to engage in any transaction and to execute any documents necessary to effectuate the
9 authorizations granted herein.

10 IT IS FURTHER ORDERED that Turner Ranches Water and Sanitation Company shall provide
11 to the Commission's Utilities Division Staff, upon request, a copy of any loan documents executed
12 pursuant to the authorizations granted herein.

13 IT IS FURTHER ORDERED that Turner Ranches Water and Sanitation Company shall file
14 with Docket Control, as a compliance item in this docket, within thirty (30) days of the execution of
15 any financing transaction authorized herein, a notice confirming that such execution has occurred and
16 a certification by an authorized Company representative that the terms of the financing fully comply
17 with the authorizations granted herein.

18 IT IS FURTHER ORDERED that, upon filing notice confirming the loan's execution, Turner
19 Ranches Water and Sanitation Company may file with Docket Control, in this docket, an application
20 requesting implementation of the loan surcharge, as discussed herein.

21 IT IS FURTHER ORDERED that the Commission's Utilities Division Staff shall calculate the
22 appropriate loan surcharge amount and prepare and file a recommended order for Commission
23 consideration, within thirty (30) days of the filing of Turner Ranches Water and Sanitation Company's
24 application requesting implementation of the loan surcharge.

25
26 IT IS FURTHER ORDERED that upon approval of the loan surcharge, Turner Ranches Water
27 and Sanitation Company shall open a separate interest-bearing account in which all loan surcharge
28 monies collected from customers will be deposited. Turner Ranches Water and Sanitation Company

1 shall only disburse funds from this account for debt service payments to BBVA Compass, and the
2 payment of income taxes related to recovery of loan surcharge, as discussed herein.

3 IT IS FURTHER ORDERED that Turner Ranches Water and Sanitation Company shall file
4 with Docket Control, as a compliance item in this docket, by September 1 of each year, a report
5 reconciling all loan surcharge monies billed and collected, along with copies of the prior year's monthly
6 bank statements for the loan surcharge account, until Turner Ranches Water and Sanitation Company
7 files its next general rate application.

8 IT IS FURTHER ORDERED that Turner Ranches Water and Sanitation Company recognize
9 the ratepayer supplied funding associated with the loan surcharge as non-investor supplied
10 Contributions in Aid of Construction in all future rate cases.

11 IT IS FURTHER ORDERED that Turner Ranches Water and Sanitation Company shall file a
12 rate case by September 1, 2019, or within a year of completing the capital improvements, whichever is
13 earlier.

14 IT IS FURTHER ORDERED that Turner Ranches Water and Sanitation Company install a
15 water meter at the fire and irrigation booster station to register the gallons of water sold to unmetered
16 residential customers.

17 IT IS FURTHER ORDERED that Turner Ranches Water and Sanitation Company shall file
18 with Docket Control, as a compliance item in this docket, no later than September 1, 2017, the most
19 recently available twelve (12) consecutive months of water use data for the entire water system.

20 IT IS FURTHER ORDERED that the Commission's Utilities Division shall review the filed
21 water use data and notify Turner Ranches Water and Sanitation Company of its actual water loss
22 percentage.

23 IT IS FURTHER ORDERED that if Turner Ranches Water and Sanitation Company's actual
24 water loss is greater than 10 percent, the Company shall prepare a water loss reduction report containing
25 a detailed analysis and plan to reduce the water loss to 10 percent or less. If the Company believes it
26 is not cost effective to reduce the water loss to less than 10 percent, it shall submit a detailed cost
27 benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater
28 than 15 percent.

IT IS FURTHER ORDERED that if Turner Ranches Water and Sanitation Company's actual water loss is greater than 10 percent, the Company shall file with Docket Control, as a compliance item in this docket, no later than November 1, 2017, the water loss reduction report or the detailed cost benefit analysis, whichever is applicable to the Company pursuant to this Decision.

IT IS FURTHER ORDERED that Staff shall evaluate whether the Company's rate design is consistent with the Commission's policy on water conservation in the Company's next rate case.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

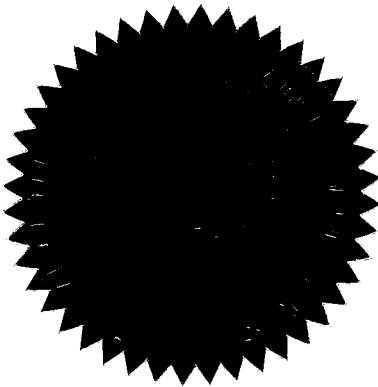
CHAIRMAN LITTLE

COMMISSIONER STUMPF

COMMISSIONER FORESE

COMMISSIONER TOBIN

COMMISSIONER BURNS



IN WITNESS WHEREOF, I, JODI A. JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 19th day of September 2016.

JODI A. JERICH
EXECUTIVE DIRECTOR

DISSENT

DISSENT
SMH:aw

1 SERVICE LIST FOR: TURNER RANCHES WATER AND SANITATION
2 COMPANY

3 DOCKET NOS.: W-01677A-16-0074 AND W-01677A-16-0076

4 Judy Lopez
5 Turner Ranches Water and Sanitation Company
6 PO Box 1020
Apache Junction, Arizona 85217

7 Jay Shapiro
8 SHAPIRO LAW FIRM, PC
1819 E. Morten Avenue, Suite 280
Phoenix, AZ 85020
Attorneys for Turner Ranches Water and Sanitation Company

9 Janice Alward, Chief Counsel
10 Legal Division
ARIZONA CORPORATION COMMISSION
11 1200 West Washington Street
Phoenix, AZ 85007

12 Thomas Broderick, Director
13 Utilities Division
ARIZONA CORPORATION COMMISSION
14 1200 West Washington Street
Phoenix, AZ 85007

15
16
17
18
19
20
21
22
23
24
25
26
27
28